Assante WEALTH MANAGEMENT

THE PLAYBOOK

Weekly Commentary – February 27, 2017

Alfred Lam, MBA, CFA
Senior Vice President & Portfolio Manager

Richard J. Wylie, MA, CFA
Vice President, Investment Strategy

Economic Calendar

Date	Release	Period	Consensus	Previous
U.S.				
February 27	Pending Home Sales Y/Y	January 17	0.18%	0.30%
February 28	Wholesale Inventories	January 17	0.52%	1.00%
March 1	Personal Income	January 17	0.07%	0.30%
March 1	Personal Spending	January 17	0.22%	0.50%
Canada				
February 28	PPI Y/Y	January 17	1.46%	2.20%
March 2	GDP Growth Rate	Q4 16	0.5%	0.9%

Key Earnings:
February 27: American Vanguard Corp., Globus Medical Inc., Northwest Natural Gas Co., Vista Gold Corp.
February 28: First National Financial Corp., Medicines Co., Salesforce.com Inc., Tesco Corp.
March 1: Best Buy Co. Inc., International Personal Finance PLC, Trans World Entertainment Corp.
March 2: Barnes & Noble Inc., Canadian Natural Resources Ltd., Staples Inc., Toronto-Dominion Bank
March 3: Canadian Utilities Ltd., London Stock Exchange Group PLC, TransAlta Corp.

Source: Trading Economics, Yahoo Finance

Market Focus

Canadian consumers take a breather in December

Year-end figures from Statistics Canada revealed a 0.5% (seasonally adjusted) drop in retail sales during December, following four consecutive months of gains. However, even with the surprise turnaround, sales grew 4.3% year-over-year in December and at an annualized 6.7% in the final quarter of 2016. The quarterly result is the strongest since the second quarter of 2015 (+9.4%). Declines in retail activity were widespread with nine of 11 major subgroups showing lower sales. Similarly, eight of the 10 provinces recorded lower sales. Interestingly, seasonality may be playing a role in the monthly data as this was a fifth consecutive December decline. This suggests that Canadian shoppers may have altered previous patterns by moving up their holiday shopping. Continued strength in the labour market should be supportive of consumer spending going forward.

U.S. housing market shows further strength

Fresh data from the U.S. National Association of Realtors revealed a strong start to 2017 with existing home sales jumping 3.3% to an annual rate of 5.69 million units (seasonally adjusted) in January. January's level was 3.8% higher than a year ago and is the strongest since February 2007, before the financial crisis. In addition, the U.S. Census Bureau reported that new home sales rose 3.7% in January to post an annual gain of 5.5%. Looking forward, improving supply should be sufficient to fuel further sales growth as housing starts stood at 1,246,000 in January, the first time they have been above 1.2 million in consecutive months since July and August of 2007.

TSX hits new high

The main North American stock indexes have travelled very different paths over the past few years. On February 10, 2017, the S&P/ TSX Composite closed with its first new high since September 3, 2014. In addition, along the way, the index experienced an outright "bear" market decline (-24.4% on January 20, 2016) and a bull market recovery (+20.1% on June 3, 2016) within the broader advance that has followed the financial crisis. Conversely, over the same period, the U.S. S&P 500 saw 56 new closing highs. And while it did have a close brush with a "bear" it was able to avoid it. Despite these differences, the S&P 500 has closed with seven new highs in February while the TSX has closed with six. While periods of convergence can be expected, the periods of divergence highlight the need for investors to hold diversified portfolios.

Longer View

Following several years of a general expansion in the price-earnings ratio of equities, we believe returns from this asset class will moderate somewhat and become more closely tied to the rate of growth in company earnings. With equity market volatility increasing to at least the normal range, it's important to keep in mind that equities are best suited for long-term investing, and that the allocation in your portfolio should reflect your investment horizon and risk tolerance. Fixed-income investments, while generally providing limited income in today's low interest rate world, are an effective diversifier in a portfolio. When there is extreme pessimism in the equity market, fixed-income tends to outperform. There is no one asset class that looks better than others, in our view, as their current valuations accurately reflect their potential and risk. Talk to your professional advisor to ensure your portfolio is optimized and continues to meet your needs.

Weekly Summary

February 21
▲ Japan's finance ministry announced that the nation had recorded a 1.09 trillion yen trade deficit in January. It was the first deficit in five months and the largest since January 2015. Imports marked their first gain in 25 months, up 8.5% from a year earlier to 6.51 trillion yen, while exports rose 1.3% to 5.42 trillion yen. The trade deficit figures are weaker than market expectations. The trade balance and the currency have become issues in relations with the U.S. under the Trump administration however, exports are projected to improve as the global economy is steadily recovering.

February 22
▼ Statistics Canada reported that retail sales decreased 0.5% in December following four consecutive monthly increases. Declines were widespread as lower sales were reported in nine of 11 subsectors, representing 82% of retail trade. These results are considerably weaker than market consensus. Since consumer spending accounts for over 60% of Canadian economic activity, it is critical for overall GDP results.

▲ According to the U.K.'s national statistics office, GDP increased 0.7% in the final quarter of 2016, up from the previous estimate of 0.6% released in January. The upward revision was driven primarily by a stronger performance of the manufacturing sector. A rebound in export played a role in the revision as well. However, on a year-to-year basis, the U.K. economy advanced 2.0% compared with the 2.2% increase previously estimated. The growth figure for 2016 as a whole was also revised down to 1.8% from 2.0%, which is slower than the 2.2% expansion in 2015.

February 23
▲ The U.S. Department of Labor announced that initial jobless claims totalled 244,000 (seasonally adjusted) in the week ending February 18, an increase of 6,000 from the previous week's revised level. The previous week's level was revised down by 1,000 to 238,000. The four-week moving average was 241,000, a decrease of 4,000 from the previous week's revised average. This is the lowest level for this average since July 21, 1973 when it was 239,500. The previous week's average was revised down by 250 to 245,000. These results match consensus estimates.

February 24
▲ Statistics Canada reported that consumer prices jumped 0.7% (seasonally adjusted, monthly basis) in January, the fastest monthly pace since June 2008. On a year-over-year basis the CPI was up 2.1%, the largest annual gain since October 2014. Not surprisingly, the annual gain was led by gasoline prices, which posted their largest increase since September 2011, up 20.6% in the 12 months to January. All three new measures of core inflation established by the Bank of Canada late last year showed underlying inflation below their 2.0% target. CPI common, which the central bank says is most closely correlated with the output gap, edged lower to 1.3% from 1.4%. However, the overall figures are considerably higher than market expectations.

▲ The U.S. Census Bureau announced that new-home sales totalled 555,000 units (seasonally adjusted annual rate) in January 2017. This is 3.7% above the revised December rate of 535,000 units and 5.5% above the January 2016 level of 526,000 units. These results are somewhat weaker than consensus estimates. Activity in the housing market has a significant "ripple" effect on the broader economy.

▲ The Thomson Reuters/University of Michigan index of consumer sentiment rose to 96.3 in the month-end reading for February. This is somewhat stronger than the 95.7 level recorded mid-month but below the 98.5 reading for January. This is marginally stronger than market expectations and another indicator of the likely pattern of consumer spending.